

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name PORTAGE LK WATER & SEWAGE AUTH	County HOUGHTON
Fiscal Year End JUNE 30, 2007	Opinion Date NOVEMBER 16, 2007	Date Audit Report Submitted to State NOVEMBER 28, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


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Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) BRUCE A. RUKKILA, CPA, PC		Telephone Number 906-482-6601	
Street Address 310 SHELDEN AVENUE		City HOUGHTON	State MI
Zip 49931		License Number 263812	
Authorizing CPA Signature 		Printed Name BRUCE A. RUKKILA, CPA	

PORTAGE LAKE WATER & SEWAGE AUTHORITY
HOUGHTON, MICHIGAN

AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTAL FINANCIAL INFORMATION

June 30, 2007

PORTAGE LAKE WATER & SEWAGE AUTHORITY

JUNE 30, 2007

ADMINISTRATION

Superintendent Lee Hauswirth

BOARD OF TRUSTEES

Chairman C. Robert Bailod

Hancock Representatives:

Trustee Barbara Clark

Trustee Robert Lewis

Houghton Representatives:

Trustees Robert Megowen

Trustee David Plowe

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Bruce A Rukkila, CPA, PC



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INDEPENDENT AUDITOR'S REPORT

Honorable Supervisor and Board of Trustees
Portage Lake Water & Sewage Authority
Houghton, Michigan

We have audited the accompanying financial statements of the business-type activities of the Portage Lake Water & Sewage Authority as of and for the year then ended June 30, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Portage Lake Water & Sewage Authority as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 16, 2007 on our consideration of Portage Lake Water & Sewage Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Portage Lake Water & Sewage Authority has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplemental information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements and have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material aspects in relation to the basic financial statements taken as a whole.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

November 16, 2007



Bruce A Rukkila, CPA, PC



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Honorable Supervisor and Board of Trustees
Portage Lake Water & Sewage Authority
Houghton, Michigan

We have audited the accompanying financial statements of the business-type activities of the Portage Lake Water & Sewage Authority as of and for the year then ended June 30, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents and have issued our report thereon dated November 16, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Portage Lake Water & Sewage Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Portage Lake Water & Sewage Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Portage Lake Water & Sewage Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Portage Lake Water & Sewage Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Portage Lake Water & Sewage Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Portage Lake Water & Sewage Authority's financial statements is more than inconsequential and will not be prevented or detected by Portage Lake Water & Sewage Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Portage Lake Water & Sewage Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the authority's board, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

November 16, 2007

PORTAGE LAKE WATER & SEWAGE AUTHORITY

STATEMENT OF NET ASSETS

June 30, 2007

	<u>Business-type Activities</u>
ASSETS	
Current assets:	
Cash and equivalents	\$ 83,022
Investments	239,743
Due from other government units	56,476
Prepaid expense	<u>5,160</u>
Total current assets	<u>384,401</u>
Non-current assets:	
Restricted cash and equivalents	108,882
Restricted investments	319,519
Capital assets	24,608,858
Less: accumulated depreciation	<u>(14,422,117)</u>
Total non-current assets	<u>10,615,142</u>
Total assets	<u><u>\$ 10,999,543</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 51,176
Accrued interest on bonds	86,919
Other accrued expenses	8,799
Current maturity on bonds	<u>535,000</u>
Total current liabilities	<u>681,894</u>
Non-current liabilities:	
Compensated absences	50,800
Bonds Payable	<u>8,660,000</u>
Total non-current liabilities	<u>8,710,800</u>
Total liabilities	<u>9,392,694</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,204,967
Contributed capital	4,391,503
Reserved retained earnings	450,637
Unreserved retained earnings	<u>(3,235,291)</u>
Total net assets	<u>1,606,849</u>
Total liabilities and net assets	<u><u>\$ 10,999,543</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

PORTAGE LAKE WATER & SEWAGE AUTHORITY

STATEMENT OF ACTIVITIES

JUNE 30, 2007

	<u>Business-type Activities</u>
Operating Revenues	
Charges for services	\$ 1,121,277
Grant revenue	90,545
Other income	61,596
Total operating revenues	<u>1,273,418</u>
Operating expenses:	
Personnel services	483,334
Utilities	172,861
Repairs and maintenance	80,891
Other supplies and expenses	132,370
Depreciation	967,500
Total operating expenses	<u>1,836,956</u>
Operating Income (Loss)	<u>(563,538)</u>
Non-operating revenues (expenses)	
Interest and investment revenue (net of costs)	24,563
Interest expense	(354,606)
Total non-operating revenues (expenses)	<u>(330,043)</u>
Net income (loss)	(893,581)
Retained earnings (deficit), beginning of the year	2,061,280
Adjustments to retained earnings:	
Depreciation on contributed capital	439,150
Retained earnings (deficit), end of year	<u><u>\$ 1,606,849</u></u>

The accompanying notes to financial statements are an integral part of this statement.

PORTAGE LAKE WATER & SEWAGE AUTHORITY
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2007

	<u>Enterprise Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 1,216,333
Payments to suppliers	(371,365)
Payments to employees	(439,644)
Other receipts (payments)	<u>90,545</u>
Net cash provided by operating activities	<u>495,869</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(203,846)
Principal paid on capital debt	(515,000)
Reserves contributions	587,317
Interest paid on capital debt	<u>(359,361)</u>
Net cash (used) by capital and related financing activities	<u>(490,890)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investment securities	(1,019,342)
Redemption of investment securities	953,688
Interest and dividends	<u>48,446</u>
Net cash provided by investing activities	<u>(17,208)</u>
Net (decrease) in cash and cash equivalents	(12,229)
Cash and cash equivalents - beginning of year	<u>204,133</u>
Cash and cash equivalents - ending of year	<u><u>\$ 191,904</u></u>
Reconciliation of operating income (loss) to net cash provided	
(used) by operating activities:	
Operating income (loss)	\$ (563,538)
Adjustments to reconcile operating income to net cash provided	
(used) by operating activities:	
Depreciation expense	967,500
Change in assets and liabilities:	
Receivables, net	33,460
Other assets	0
Accounts and other payables	14,757
Other liabilities	(4,755)
Accrued expenses	<u>48,445</u>
Net cash provided by operating activities	<u><u>\$ 495,869</u></u>

The accompanying notes to financial statements are an integral part of this statement.

PORTAGE LAKE WATER & SEWAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS – June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The following is a summary of the more significant accounting policies of the Portage Lake Water & Sewage Authority:

REPORTING ENTITY

The Portage Lake Water & Sewage Authority entered into a contract with the City of Houghton and the City of Hancock for the acquisition, improvements, enlargement, extension, operation, and maintenance of a sewage disposal system. The cost of operations and improvements are divided between the City of Houghton and the City of Hancock on a pro rata basis based upon the percentage use of the plant by each city as measured by the material flow from the pumping station.

In accordance with the provisions of the Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, the financial statements of the Portage Lake Water & Sewage Authority contain all of the financial activity of the Authority's funds. The Authority is not considered a component unit of either city. Elements considered in determining that the Authority is not a component unit of the cities are as follows:

1. The Cities are not responsible for the designation of the Authority's management.
2. The Cities do not approve the Authority's annual budget or budget amendments.
3. The Cities do not significantly influence operations.
4. The Cities each appoint two of the five members to the Authority's Board of Trustees.
5. The Cities do not have significant fiscal management responsibilities. They do not have a right to receive surplus payments made to the authority and are not responsible for guaranteeing certain debt.
6. The Cities provide no direct on-going financial support to the Water & Sewage Authority.
7. The Cities do not hold title to the physical assets of the Authority.

Financial transactions between the Cities and the Authority, reported in the accompanying financial statements, constitute contractual agreements for providing services.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The accounts of the Authority are organized on the basis of a fund which is considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. The Authority's resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

Enterprise Fund - This fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. Net assets is segregated into invested capital (net of related debt) and unrestricted components. Enterprise fund type operating statements present increases and decreases in net total assets.

PORTAGE LAKE WATER & SEWAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS – June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

Basis of Accounting - The basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Funds of the Authority are accounted for using the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recognized when incurred.

Other Accounting Policies

Cash And Cash Equivalents - For purposes of the statement of cash flows, cash and equivalents consist of cash on hand and cash in savings and checking accounts.

Restricted assets - Certain cash accounts are classified as restricted assets on the balance sheet because their use is limited.

Receivables and Payables - In general, outstanding balances between funds are reported as “due to/from other funds.” All receivables, including property taxes receivable, are shown net of allowance for uncollectibles.

Inventory - The Authority utilizes the purchase method of recording inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are purchased.

Encumbrances - Encumbrances are defined as commitments related to unperformed contracts for goods and services. The Authority does not record encumbrances in the normal course of operating its accounting system and none are recorded in the accompanying financial statements

Capital Assets - Capital assets, which include land, buildings, equipment, water/sewer improvements, and vehicles are reported in the statement of net assets. Capital assets are defined by the government as assets with an initial individual cost of more than \$3,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	25 years
Sewage systems	15-25 years
Vehicles	7-10 years
Furniture and other equipment	10-15 years

Fund Equity - The unreserved retained earnings is shown as a deficit balance as a result of recording historical and current depreciation expenses. Reserved retained earnings represent the net assets that have been legally identified for specific purposes.

Contributed capital - The Authority follows the policy of reducing contributed capital for an amount equal to the yearly depreciation on assets acquired or constructed with such contributed capital. This policy is based on the premise that future replacement of these facilities will be funded by the users who benefit from the facilities and not current users through the current rate structure. At June 30, 2007, Federal, State and Local contributed capital of \$10,978,758 has been reduced to \$4,391,503 as of June 30, 2007. The current year amortization is \$439,150.

PORTAGE LAKE WATER & SEWAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS – June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

Long-term Obligations - In the financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Revenues - Charges to the Cities are recognized based on actual expenditures incurred, adjusted annually based on audited amounts. Operating expenses are allocated to the Cities of Houghton and Hancock based on the number of gallons of flowage processed annually. Expenditures for capital assets, debt principal payments, and other nonoperating type expenditures are charged directly to the Cities using the same allocation basis.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Reclassification - Certain items in the prior year financial statements have been reclassified to conform with the current year presentation.

NOTE B - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Each April, the Plant Superintendent and Administrative Secretary prepare a proposed operating budget for the fiscal year commencing the following July 1, and submit the proposed budget to the Board at the regular May meeting.
2. The Board reviews the proposed budget, which includes proposed expenditures and the means of financing them.
3. Pursuant to statute, the board approves the budget and submits it to the respective municipality's legislative bodies for their records. The final budget is formally adopted at the next board meeting. No budget shall be adopted unless approved by a four-fifths vote of the members-elect of the Board of Trustees.
4. The Board reviews the budget quarterly during the fiscal year and makes formal amendments when appropriate.
5. Budget appropriations lapse at the end of the fiscal year.

NOTE C - CASH AND INVESTMENTS

As of June 30, 2007 the Authority had the following investments:

Investment Type	Fair Value	Rating
U.S. Treasury Notes	\$ 559,262	AAA

Interest Rate Risk - In accordance with its investment policy, the Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Authority's cash requirements.

Credit Risk - State law limits investments in commercial paper corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of Credit Risk - The Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

PORTAGE LAKE WATER & SEWAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS – June 30, 2007

NOTE C - CASH AND INVESTMENTS (Continued)

Custodial Credit Risk - Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2007, \$8,882 of the Authority's bank balance of \$199,585 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Authority's name.

Custodial Credit Risk - Investments - For an investment, this is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Authority will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Authority will do business.

At year-end, the Authority's cash deposits (checking, savings and certificates of deposit) and investments were reported in the basic financial statements in the following categories and breakdown between deposits and investments for the Authority is as follows:

Unrestricted cash	\$	83,022
Restricted cash		108,882
Total cash and cash equivalents		191,904
Investments		239,743
Restricted investments		319,519
Total investments		559,262
Total deposits and investments	\$	751,166

NOTE D - FIXED ASSETS

Fixed Asset activity of the Authority's governmental activities was as follows:

	Balance 06/30/06	Additions	Deletions	Balance 06/30/07
Land	\$ 384,186	\$ 0	\$ 0	\$ 384,186
Building, tanks etc.	22,166,679	0	0	22,166,679
Land Improvements	23,734	28,500	0	52,234
Equipment	126,621	79,127	0	205,748
Refunding Debt Discounts	133,968	0	0	133,968
System	1,337,527	96,219	0	1,433,746
Vehicles	232,297	0	0	232,297
Subtotal	24,405,012	\$ 203,846	\$ 0	24,608,858
Accumulated depreciation:				
Building, tanks etc.	12,413,340	\$ 886,667	\$ 0	13,300,007
Land Improvements	16,418	2,057	0	18,475
Equipment	119,508	9,215	0	128,723
Refunding Debt Discounts	9,569	9,569	0	19,138
System	711,159	53,840	0	764,999
Vehicles	184,623	6,152	0	190,775
	13,454,617	\$ 967,500	\$ 0	14,422,117
Net capital assets	\$ 10,950,395			\$ 10,186,741

PORTAGE LAKE WATER & SEWAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS – June 30, 2007

NOTE E - RECEIVABLES

Receivables from governmental units at June 30, 2007 consist of an amount due from local units in the amount of \$56,476.

NOTE F - LONG-TERM DEBT

2005 Advance Refunding

On July 5, 2005 the Authority issued \$9,535,000 of general obligation limited tax refunding bonds to advance refund \$8,990,000 of outstanding unlimited tax and obligation bonds. The proceeds of the bonds were used to provide for the payment of the principal of, interest on and redemption premium on the 1995 Refunding Bonds.

This advance refunding was undertaken to reduce total debt service payments over the next 16 years by \$1,147,867 and to gain an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$1,005,523.

The bond issue matures as indicated below with interest at varying rates of 3.00% to 3.5% per annum. Interest payments started on October 1, 2005, and are payable semi-annually on April 1, and October 1 as indicated. The bonds are to be both term and serial.

Optional Redemption: The Bonds coming due on and after October 1, 2016, are subject to redemption prior to maturity at the option of the Authority on any date on and after October 1, 2015, from any available moneys, in whole or in part, and if in part, in such principal amounts and from such maturities as the Authority shall determine and within any maturity by lot, at a redemption price of par plus accrued interest to the date fixed for redemption.

Mandatory Redemption: The Bonds maturing on October 1, 2007, October 1, 2011, October 1, 2012, October 1, 2013, October 12, 2014, October 1, 2015, October 1, 2016, October 1, 2017, October 1, 2018, October 1, 2019 and April 1, 2021 (the "Term Bonds") are also subject to mandatory sinking fund redemption in part and by lot, on April 1 and October 1 of each of the years and in the amounts set forth below at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date. Notice of such call shall be given by mailing a notice thereof at least thirty (30) days, but not more than sixty (60) days, prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the registration books.

Fiscal Year	October 1		April 1		Total
	Interest	Principal	Interest	Principal	
2007-2008	\$ 173,839	\$ 265,000	\$ 169,864	\$ 270,000	\$ 878,703
2008-2009	165,308	270,000	160,751	275,000	871,059
2009-2010	155,939	280,000	151,039	285,000	871,978
2010-2011	146,051	285,000	141,064	290,000	862,115
2011-2012	136,061	290,000	131,059	295,000	852,120
2012-2013	125,822	300,000	120,497	305,000	851,319
2013-2014	114,931	315,000	109,182	320,000	859,113
2014-2015	103,182	325,000	97,089	330,000	855,271
2015-2016	90,819	335,000	84,454	345,000	855,273
2016-2017	77,726	350,000	70,901	355,000	853,627
2017-2018	63,801	365,000	56,501	370,000	855,302
2018-2019	49,009	380,000	41,314	385,000	855,323
2019-2020	33,517	390,000	25,620	400,000	849,137
2020-2021	17,220	405,000	8,715	415,000	845,935
	<u>\$ 1,453,225</u>	<u>\$ 4,555,000</u>	<u>\$ 1,368,050</u>	<u>\$ 4,640,000</u>	<u>\$ 12,016,275</u>

PORTAGE LAKE WATER & SEWAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS – June 30, 2007

NOTE F - LONG TERM DEBT (Continued)

Activity of long-term debt was as follows for the year ended June 30, 2007:

	Balance June 30, 2006	Addition	Retirement	Balance June 30, 2007	Current Maturities
1998 Refunding	\$ 230,000	\$ 0	\$ 230,000	\$ 0	
2005 Refunding	9,480,000	0	285,000	9,195,000	\$ 535,000
TOTAL	<u>\$ 9,710,000</u>	<u>\$ 0</u>	<u>\$ 515,000</u>	<u>\$ 9,195,000</u>	

NOTE G- SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Segment information for the year ended June 30, 2007 is as follows:

Operating Revenues	\$1,193,368
Depreciation	\$967,500
Operating Income (Loss)	(\$643,587)
Non-operating Revenue (Expense)	(\$330,043)
Net Income (Loss)	(\$973,630)
Property, Plant and Equipment:	
Additions	\$203,846
Net Working Capital (Deficit)	(\$354,058)
Total Assets	\$10,949,066

NOTE H - PENSION PLAN

Several employees of the Authority are covered under a union administered pension plan. The Authority's contribution is determined by applying a fixed rate to the hours worked by covered employees. The total cost of the pension plan for the year ended June 30, 2007, was \$5,506.

On August 13, 1996, the Authority approved a simplified employee benefit pension plan. The Authority makes contributions to the plan on behalf of its non-union employees. For current year, contributions were made at 8% of gross salary for employees who are over the age of 21 and received at least \$450 in compensation for the year. Total contributions for the year ending June 30, 2007 amounted to \$6,620. The Authority has no liability for the plan beyond its annual contributions.

NOTE I - COMPENSATED ABSENCES

Authority employees generally earn sick leave at the rate of one day per month. Sick leave may be accumulated up to ninety (90) days. In the case of employee death or termination, fifty percent (50%) of any unused sick leave will be paid to the employee or the employee's estate. Upon retirement, one hundred percent (100%) of the unused sick pay will be paid to retirees up to the maximum 90 days. Vacation pay may be accumulated up to twenty-five (25) days.

Vacation pay is accumulated annually based on length of service as follows:

<u>Years of Service</u>	<u>Days of Vacation</u>
1	1 week
2 through 4	2 weeks
5 through 9	3 weeks
10 or more	4 weeks

Total accumulated vacation and sick leave at June 30, 2007, was \$19,971 and \$30,829 respectively.

PORTAGE LAKE WATER & SEWAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS – June 30, 2007

NOTE J - EQUITY RESERVE

Repair and Replacement

In 1985, the Authority established a repair and replacement equity reserve account to provide a method for accumulating funds for repairs in excess of \$500 to the aging utility plant. Funds budgeted but unspent and interest earned each year are to be retained by the authority in the reserve for use in future years. The current year's budgeted and expensed amounts for repairs and replacement were \$112,635 and \$52,342 respectively, under the budget amount by \$60,293. During the current year the Authority utilized \$79,127 of the reserved repair and replacement equity and earned \$9,610 in interest. Therefore the repair and replacement equity reserve accounts at June 30, 2007, were adjusted to reflect the net change of (\$9,224), using the cost allocation percentages for each city.

Bond Payments

In 1999, the Authority established a bond payment equity reserve account to provide a method for accumulating funds to avoid large annual changes in charges to the cities for future bond payments. Funds budgeted but unspent each year and interest earned on the bond account is to be retained by the authority in the reserve for use in future years. Likewise, bond payments in excess of budgeted amounts during the year are to be taken from the reserve account. The current year's budgeted and expensed amounts for bond payments were \$874,358 and \$869,606 respectively and interest earned was \$16,788. Therefore the bond payment equity reserve accounts at June 30, 2007, were adjusted to reflect the net change increase of \$21,541, using the cost allocation percentages for each city.

Contingency

A contingency account was established in prior years to provide a reserve for extraordinary expenditures. It was funded by a levy of an additional 10% of the prorated operating costs to each municipality. On May 15, 1979, the Authority approved the change to a flat amount to be determined upon approval of the annual operating budget. No contingency amount was charged to the cities for the year ended June 30, 2007.

A summary of changes in Equity Reserve is as follows:

	Balance 07/01/06	Additions	Subtractions	Balance 6/30/07
Repair and Replacement	\$ 166,723	\$ 69,903	\$ 79,127	\$ 157,499
Bond Payments	234,839	21,541	0	256,380
Contingency	36,758	0	0	36,758
Total Equity Reserve	<u>\$ 438,320</u>	<u>\$ 91,444</u>	<u>\$ 79,127</u>	<u>\$ 450,637</u>

NOTE K - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority has obtained commercial insurance to handle its risk of loss.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

SUPPLEMENTAL FINANCIAL INFORMATION

PORTAGE LAKE WATER & SEWAGE AUTHORITY
BUDGET COMPARISON REPORT - MODIFIED ACCRUAL
Year ended June 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Wages	\$ 233,000.00	\$ 240,275.60	\$ (7,275.60)
Payroll taxes	25,500.00	26,044.31	(544.31)
Employee benefits	88,000.00	88,418.74	(418.74)
Administrative expense	75,765.00	77,795.97	(2,030.97)
Office operation	5,500.00	5,432.93	67.07
Power	144,900.00	142,871.17	2,028.83
Fuel for heating	17,000.00	15,973.37	1,026.63
Water	2,100.00	1,869.63	230.37
Chemicals	44,000.00	36,470.50	7,529.50
Bed preparation and rehab	9,500.00	8,888.15	611.85
Maintenance parts and supplies	45,500.00	47,481.86	(1,981.86)
Repair and replacement	112,635.00	52,341.84	60,293.16
Vehicle expense	9,000.00	9,566.69	(566.69)
Laboratory	13,500.00	13,458.10	41.90
Lab samples	20,000.00	18,953.49	1,046.51
Insurance	38,000.00	35,344.00	2,656.00
Telephone	12,000.00	12,146.85	(146.85)
Professional services	10,000.00	9,259.84	740.16
Training and travel	3,000.00	4,201.80	(1,201.80)
Miscellaneous	0.00	360.50	(360.50)
Total Expenses	908,900.00	847,155.34	61,744.66
Repair and replacement adjustment	0.00	60,293.16	(60,293.16)
		<u>907,448.50</u>	
Principal payments		515,000.00	
Bond interest payment		354,605.88	
Bond payment reserve adjustment		21,540.57	
Total Bond Activity	<u>874,358.00</u>	<u>891,146.45</u>	<u>(16,788.45)</u>
Sub-Total	1,783,258.00	1,798,594.95	(15,336.95)
Other income	(62,000.00)	(61,596.00)	(404.00)
Interest income	0.00	(24,562.77)	24,562.77
Grant income	0.00	(90,545.00)	90,545.00
Grant expenses	0.00	96,219.00	(96,219.00)
Repair and replacement interest	<u>0.00</u>	<u>9,609.89</u>	<u>(477.35)</u>
Total	<u>\$ 1,721,258.00</u>	<u>\$ 1,727,720.07</u>	<u>\$ 2,670.47</u>

PORTAGE LAKE WATER & SEWAGE AUTHORITY
DUE FROM MUNICIPALITIES
Year ended June 30, 2007

	<u>TOTAL</u>	<u>HOUGHTON</u>	<u>HANCOCK</u>
Direct Allocation Percentage		<u>2.85%</u>	<u>1.71%</u>
Usage Allocation Percentage		<u>74.15%</u>	<u>25.85%</u>
Prior Year Due From (To)	\$ 89,936.42	\$ 98,409.09	\$ (8,472.67)
Amount billed	1,721,244.00	1,278,588.00	442,656.00
Payments received	<u>(1,761,180.42)</u>	<u>(1,326,997.09)</u>	<u>(434,183.33)</u>
DUE FROM (TO) MUNICIPALITIES PRIOR TO ALLOCATION	<u>\$ 50,000.00</u>	<u>\$ 50,000.00</u>	<u>\$ 0.00</u>
AUDIT ADJUSTMENTS:			
Expense (Revenue) Allocation:			
Operating expenses	\$ 847,155.34	\$ 628,195.34	\$ 218,960.00
Repair & Replacement activity	60,293.16	44,709.49	15,583.67
Repair & Replacement interest	9,609.89	7,126.07	2,483.82
Bond payment activity	4,752.12	3,523.86	1,228.26
Bond reserve interest	16,788.45	12,449.22	4,339.23
Other income	(61,596.00)	(45,675.59)	(15,920.41)
Grant income	(90,545.00)	(67,142.29)	(23,402.71)
Grant expenses	96,219.00	71,349.76	24,869.24
Interest income	(24,562.77)	(18,214.15)	(6,348.62)
Interest expense:			
Direct allocation	16,169.46	10,101.27	6,068.19
Usage allocation	<u>338,436.42</u>	<u>250,962.45</u>	<u>87,473.97</u>
Total Expense (Revenue) Allocation	<u>1,212,720.07</u>	<u>897,385.43</u>	<u>315,334.64</u>
Debt Payments:			
Bond Principal Payment			
Direct allocation	23,483.19	14,670.26	8,812.93
Usage allocation	<u>491,516.81</u>	<u>364,476.92</u>	<u>127,039.89</u>
Total bond payments	<u>515,000.00</u>	<u>379,147.18</u>	<u>135,852.82</u>
Total Expense/Revenue and Debt Payments	1,727,720.07	1,276,532.61	451,187.46
Amount billed	<u>(1,721,244.00)</u>	<u>(1,278,588.00)</u>	<u>(442,656.00)</u>
Billed (over) under	6,476.07	(2,055.39)	8,531.46
Due from Municipalities prior to adjustments	<u>50,000.00</u>	<u>50,000.00</u>	<u>0.00</u>
DUE FROM MUNICIPALITIES AT END OF YEAR	<u>\$ 56,476.07</u>	<u>\$ 47,944.61</u>	<u>\$ 8,531.46</u>

PORTAGE LAKE WATER & SEWAGE AUTHORITY
SCHEDULE OF GALLONS PROCESSED
Year ended June 30, 2007

	<u>Total</u>	<u>Usage Allocation Percentage</u>
Gallons:		
Houghton	522,618,350	74.15%
Hancock	182,161,000	25.85%
TOTALS	<u>704,779,350</u>	<u>100.0000%</u>

FLOWAGE (GALLONS)

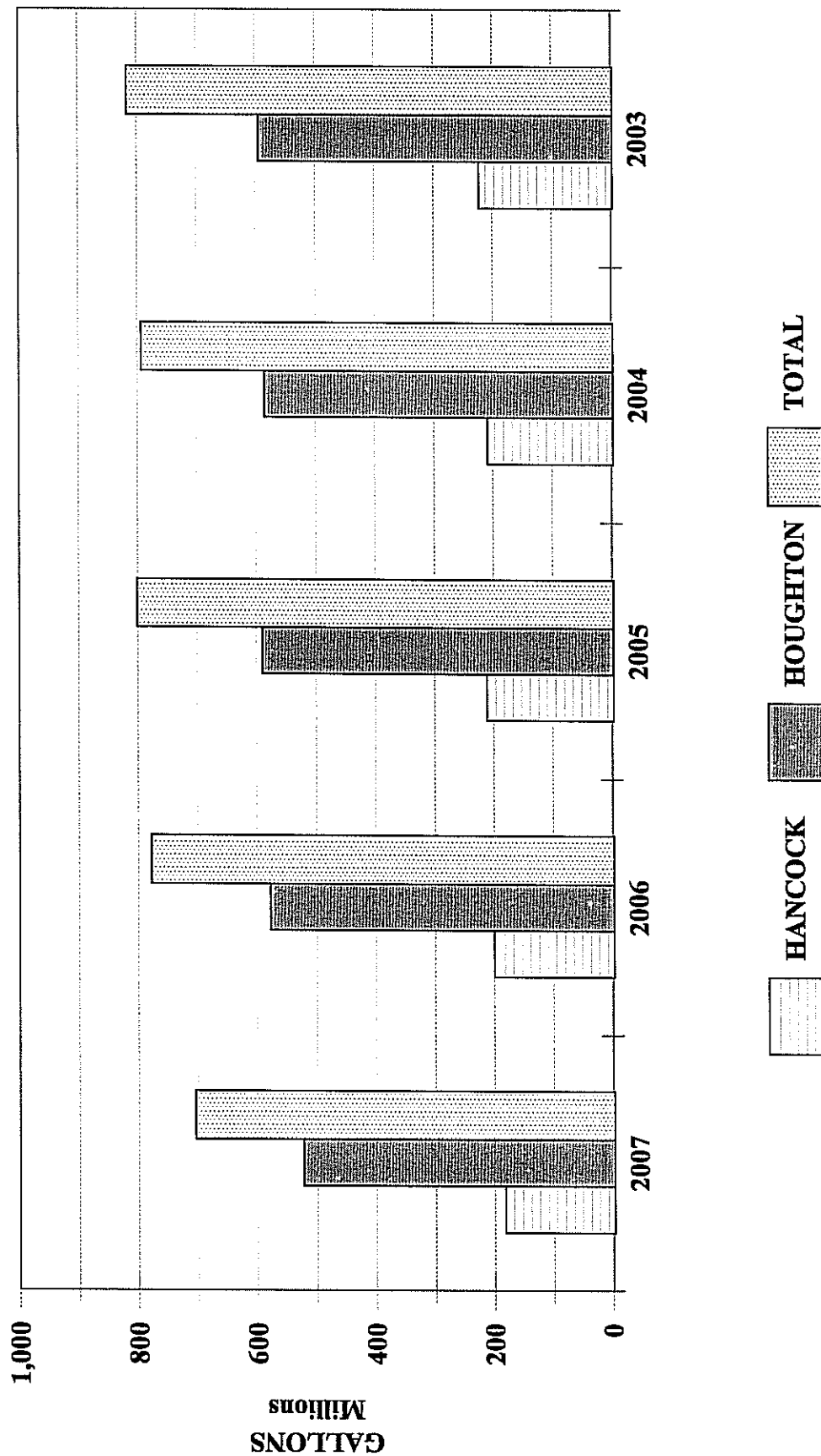
	<u>2005-06</u>	<u>2006-07</u>	<u>Variance Increase (Decrease)</u>
HOUGHTON			
July	38,326,490	40,434,490	2,108,000
August	37,218,490	35,523,490	(1,695,000)
September	39,880,700	37,599,700	(2,281,000)
October	50,289,490	41,582,490	(8,707,000)
November	47,554,700	35,251,700	(12,303,000)
December	45,785,490	43,476,490	(2,309,000)
January	45,242,490	43,761,490	(1,481,000)
February	40,611,120	38,300,120	(2,311,000)
March	58,722,490	63,004,490	4,282,000
April	72,775,700	62,327,700	(10,448,000)
May	59,319,490	42,576,490	(16,743,000)
June	42,395,700	38,779,700	(3,616,000)
	<u>578,122,350</u>	<u>522,618,350</u>	<u>(55,504,000)</u>

	<u>2005-06</u>	<u>2006-07</u>	<u>Variance Increase (Decrease)</u>
HANCOCK			
July	13,562,000	14,779,000	1,217,000
August	11,791,000	11,733,000	(58,000)
September	13,152,000	11,894,000	(1,258,000)
October	16,048,000	13,956,000	(2,092,000)
November	15,719,000	12,816,000	(2,903,000)
December	16,191,000	15,239,000	(952,000)
January	16,266,000	15,632,000	(634,000)
February	14,128,000	12,366,000	(1,762,000)
March	23,286,000	24,444,000	1,158,000
April	25,328,000	23,036,000	(2,292,000)
May	20,669,000	14,722,000	(5,947,000)
June	14,011,000	11,544,000	(2,467,000)
	<u>200,151,000</u>	<u>182,161,000</u>	<u>(17,990,000)</u>

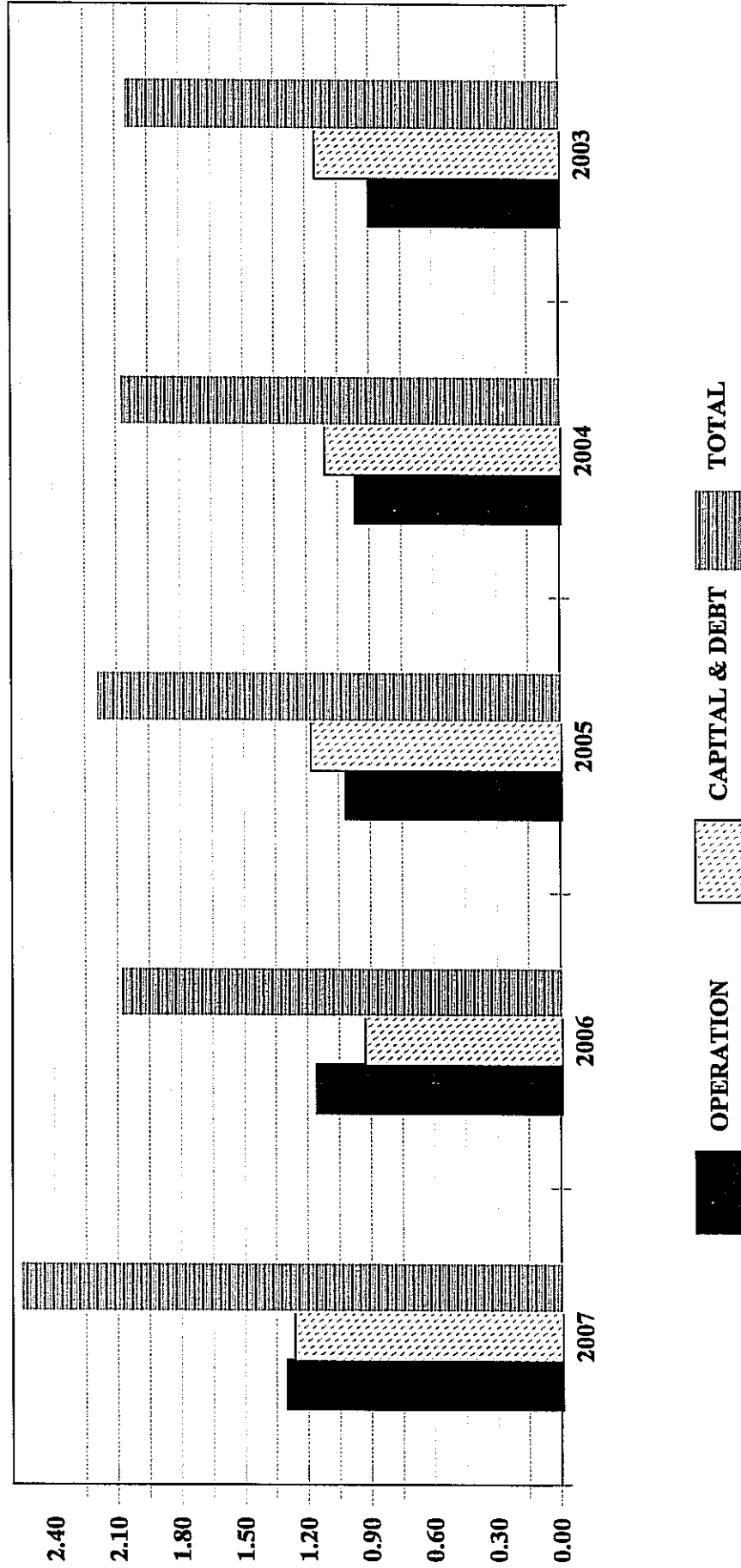
PORTAGE LAKE WATER & SEWAGE AUTHORITY
CONTRIBUTION AND RESERVE ALLOCATIONS
Year ended June 30, 2007

		<u>HOUGHTON</u>	<u>HANCOCK</u>
Direct Bond Amounts			
Rehabilitation costs incurred directly		\$ 370,546.00	\$ 197,776.00
Legal costs incurred directly		0.00	24,824.00
Total Direct Bond Amounts		<u>\$ 370,546.00</u>	<u>\$ 222,600.00</u>
Direct Allocation %		<u>2.85%</u>	<u>1.71%</u>
Usage Allocation %		<u>74.15%</u>	<u>25.85%</u>
Bond Principal Payment	<u>\$ 515,000.00</u>		
Allocation of direct		\$ 14,670.25	\$ 8,812.93
Allocation by usage		364,476.92	127,039.89
Bond Principal Payment Allocation		<u>\$ 379,147.17</u>	<u>\$ 135,852.82</u>
Bond Interest Payment	<u>\$ 354,605.88</u>		
Allocation of direct portion		10,101.27	6,068.19
Allocation by usage percentage		250,962.45	87,473.97
Bond Interest Payment Allocation		<u>\$ 261,063.72</u>	<u>\$ 93,542.16</u>
CONTRIBUTION SUMMARY			
Beginning Balance		\$ 3,539,976.46	\$ 1,734,288.23
Bond Principal Payment Allocation		379,147.17	135,852.83
Ending Balance		<u>\$ 3,919,123.63</u>	<u>\$ 1,870,141.06</u>
REPAIR AND MAINTENANCE RESERVE			
(Usage Allocation Percentages)			
Beginning Balance		\$ 115,872.45	\$ 50,850.94
Budget amount	\$ 112,635.00		
Repair & Replacement Expenses	(52,341.84)		
Expenditures under (over) budget	<u>\$ 60,293.16</u>	44,709.49	15,583.67
Interest income	<u>\$ 9,610.00</u>	7,126.07	2,483.82
Repair & Replacement reserve expenditures	<u>\$ (79,126.90)</u>	(58,675.37)	(20,451.53)
Ending Balance		<u>\$ 109,032.64</u>	<u>\$ 48,466.90</u>
BOND PAYMENT RESERVE			
(Usage Allocation Percentages)			
Beginning Balance		\$ 172,535.40	\$ 62,303.11
Budget amount	\$ 874,358.00		
Bond Payment - Principal & Interest	(869,605.88)		
Expenditures under (over) budget	<u>\$ 4,752.12</u>	3,523.86	1,228.26
Interest income	<u>\$ 16,788.45</u>	12,449.22	4,339.23
Ending Balance		<u>\$ 188,508.48</u>	<u>\$ 67,870.60</u>

PORTAGE LAKE WATER & SEWAGE AUTHORITY
FLOWAGE ANALYSIS
Year ended June 30, 2007



PORTAGE LAKE WATER & SEWAGE AUTHORITY
NET OPERATING COST PER 1,000 GALLONS
Year ended June 30, 2007





Bruce A Rukkila, CPA, PC



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LETTER OF COMMENTS AND RECOMMENDATIONS

Board of Trustees
Portage Lake Water & Sewage Authority
Houghton, Michigan

We have audited the financial statements of the Portage Lake Water & Sewage Authority as of and for the year ended June 30, 2007, and have issued our report thereon dated November 16, 2007.

Statement on Auditing Standards (SAS) No. 112

Those charged with governance is defined as, "the person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity." This includes overseeing the financial reporting and disclosure process. In smaller entities, such as the Portage Lake Water and Sewage Authority, those charged with governance may be the same people.

SAS No. 112 states that those charged with governance need to have the necessary accounting expertise and competence with respect to financial statement preparation. They must be able to prevent, detect, and correct a potential misstatement in the financial statements. In order to eliminate control deficiencies, significant deficiencies, or material weaknesses, the Authority should review their internal control, segregation of duties, and management's ability to prepare financial statements.

We would like to thank the administrative staff for the cooperation we received during our audit. We appreciate the opportunity to present these comments and recommendations for your consideration and we are prepared to discuss them at your convenience.

It has been a pleasure to provide audit services to the Portage Lake Water and Sewage Authority. Management was prepared for the audit, providing us with all supporting documents requested. Management was friendly, conscientious and very helpful.

We appreciate your business, thank you.

Bruce A. Rukkila, CPA, PC
Certified Public Accountants

November 16, 2007

PORTAGE LAKE WATER & SEWAGE AUTHORITY
EXPENSE COMPARISON
 Year ended June 30, 2007

